



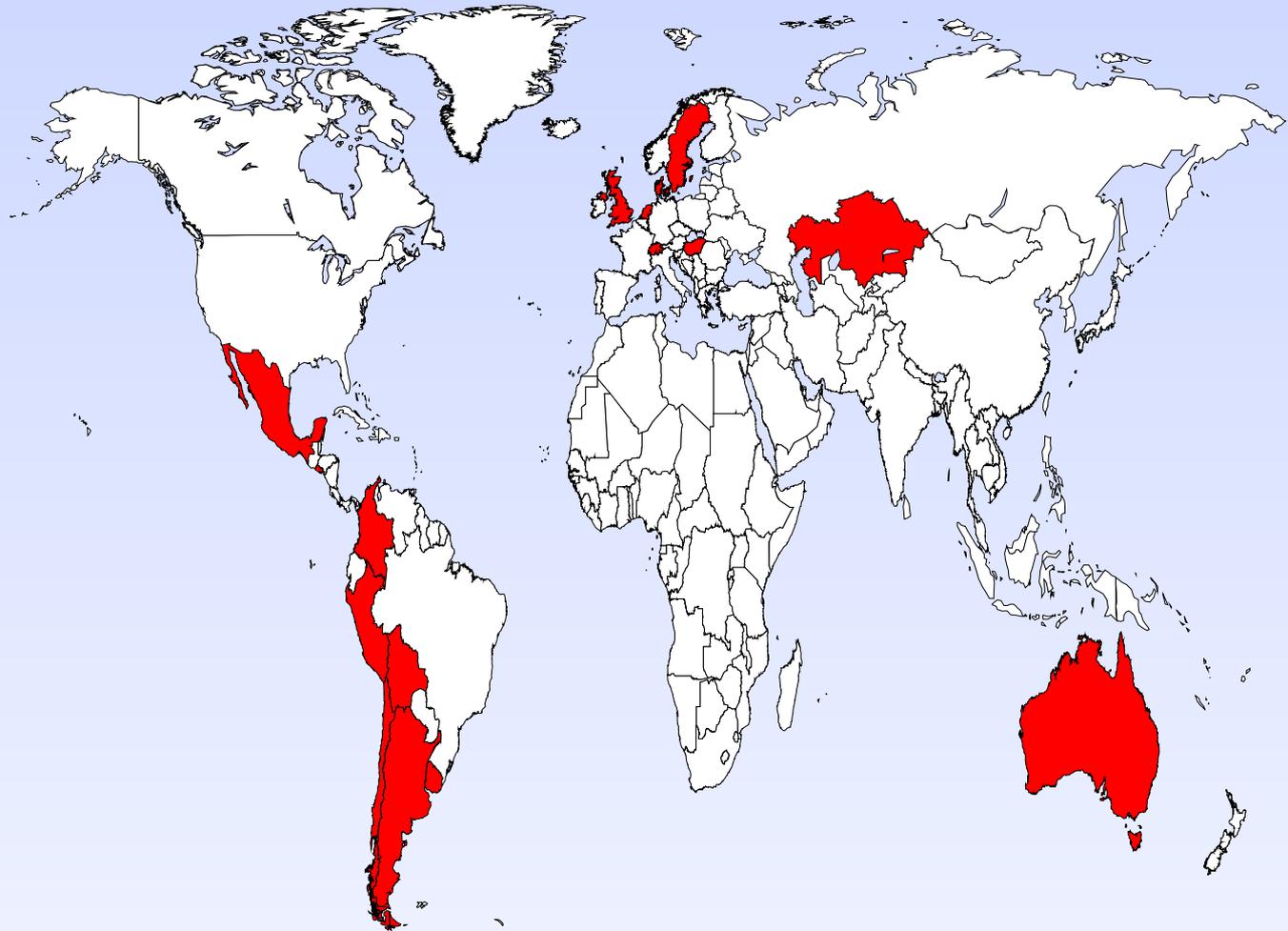
International Experience with Private Retirement Accounts

Anita M. Schwarz

Senior Economist

World Bank

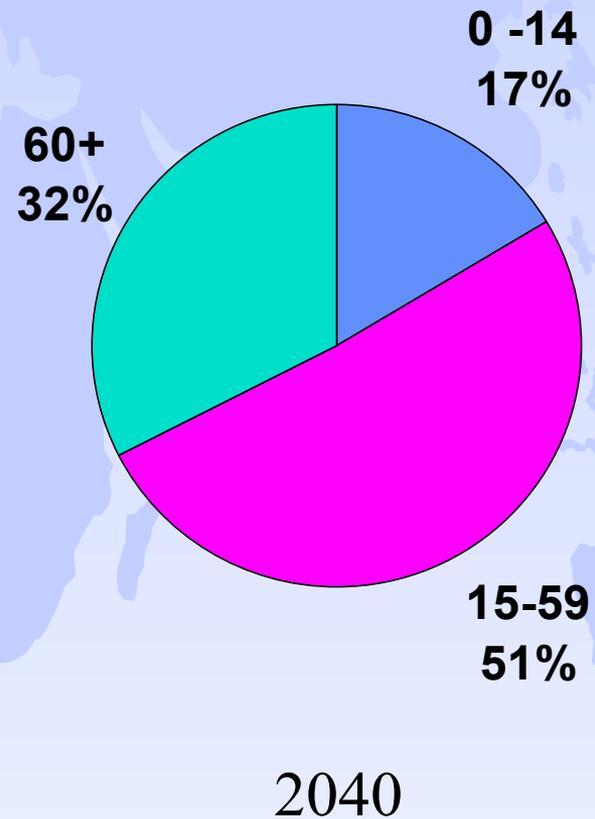
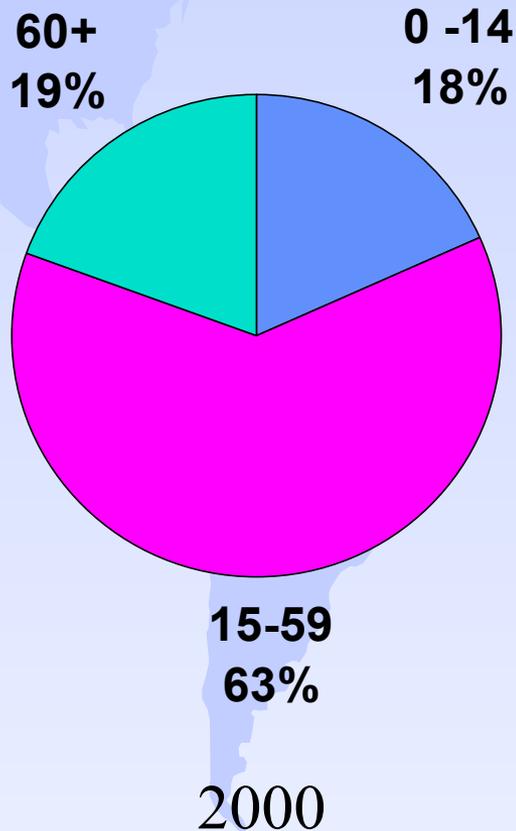
Growing Trend Toward Private Retirement Accounts



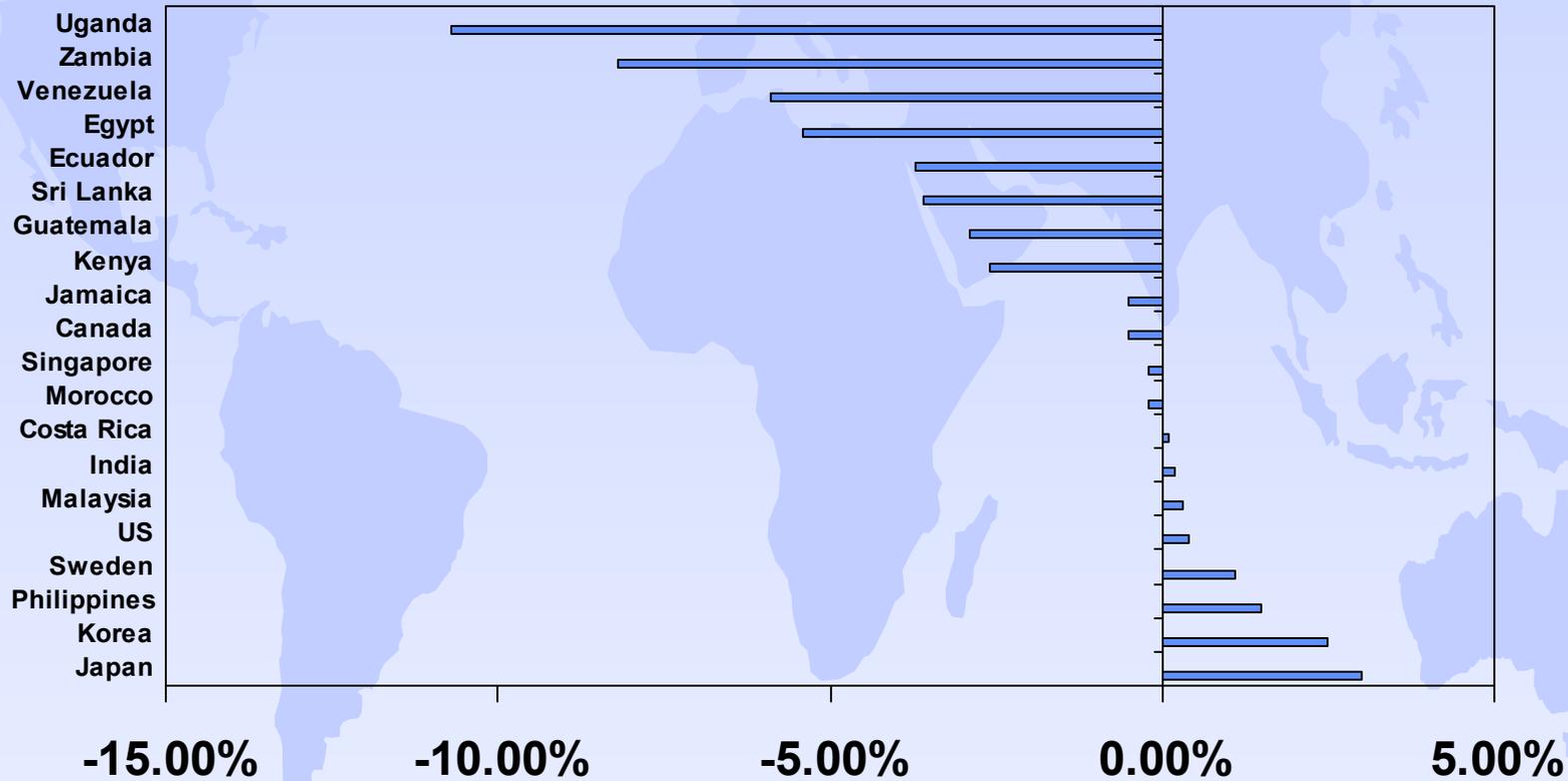
Why Move Toward Private Retirement Accounts?

- ◆ Prefunding helps prepare for costs of an aging society
- ◆ Experience with publicly managed funds has been disastrous
- ◆ More equitable if mandatory since higher income workers already supplement social security

Demographic Change in OECD countries



Experience with Public Management



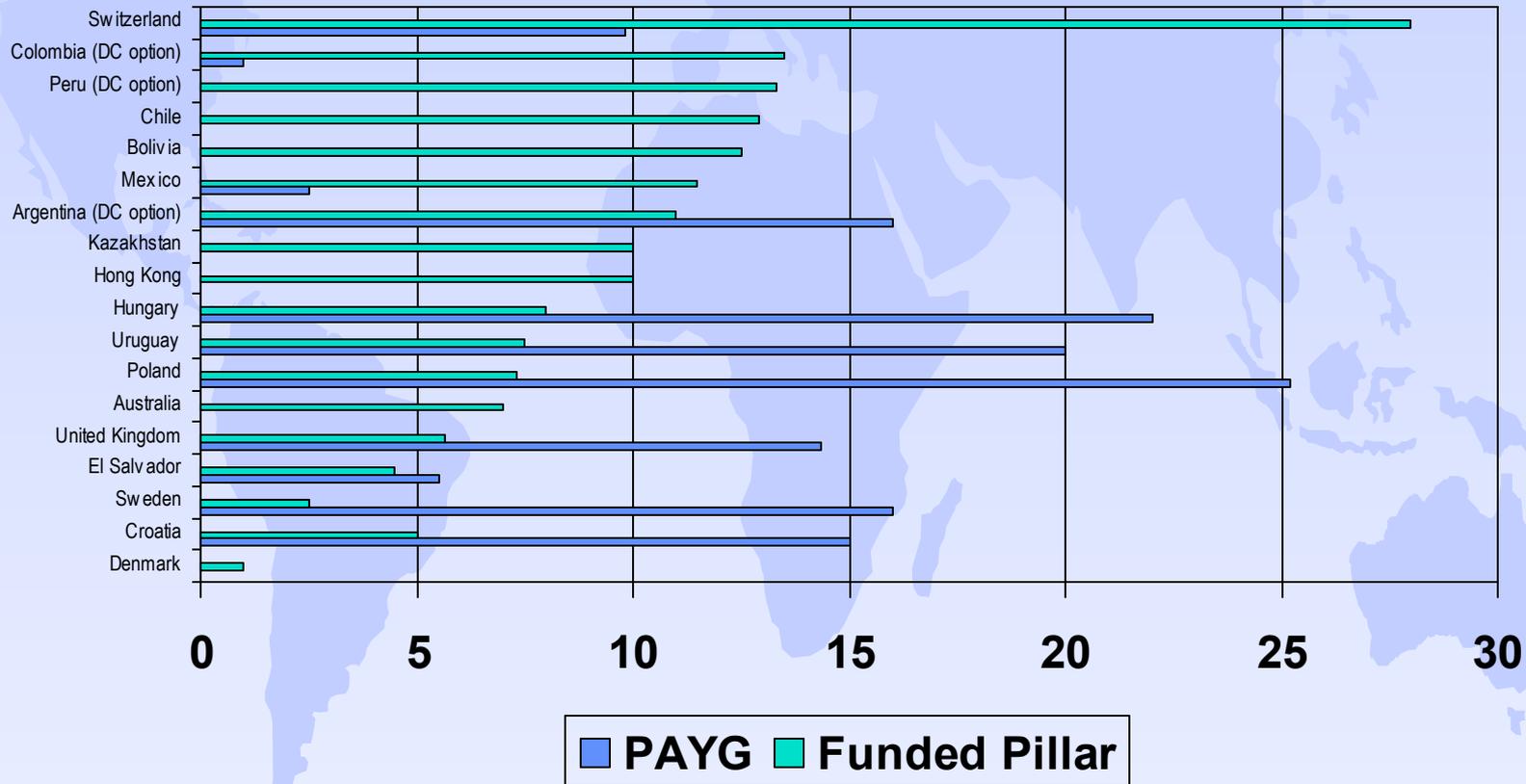
Why Mandatory Rather than Voluntary?

- ◆ Higher income workers already supplement social security
- ◆ Lower income workers often don't have the same access
- ◆ Can only reduce main system benefits if assured that all people have supplemental pension

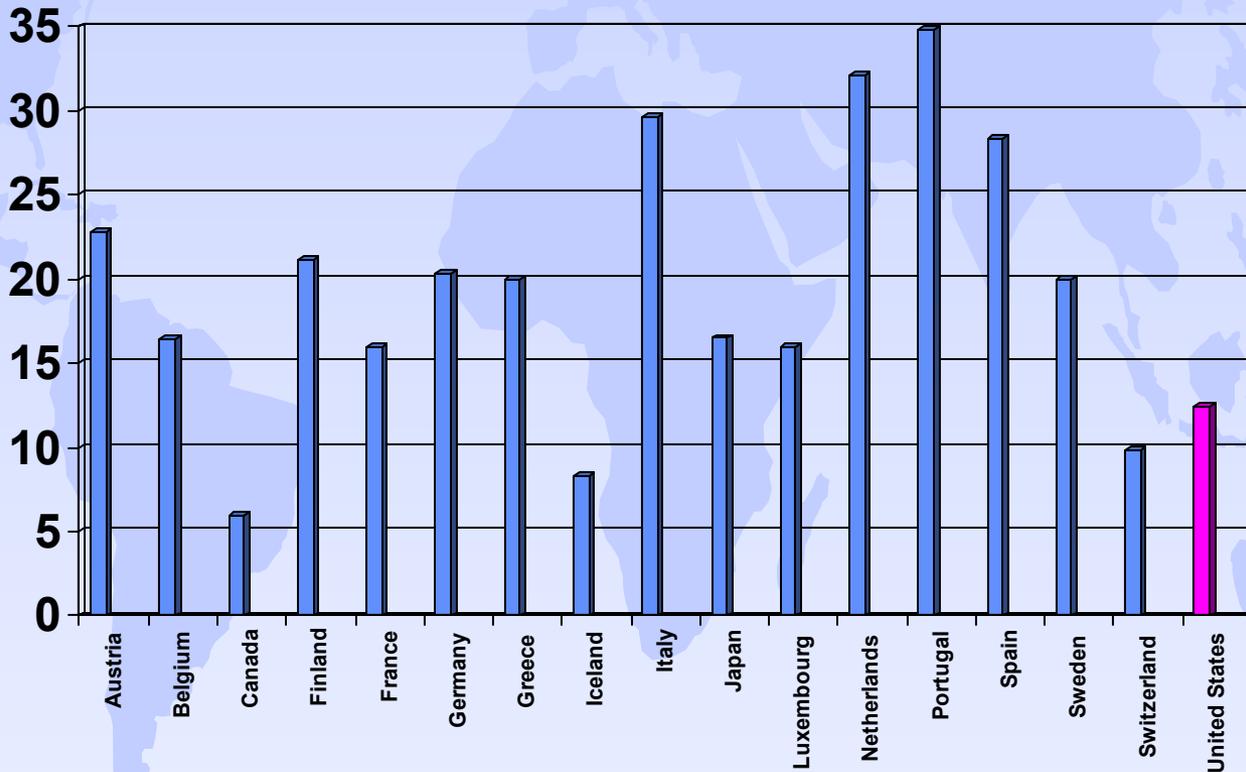
Characteristics of Private Retirement Accounts

- ◆ Mandatory – an integral part of the social security package
- ◆ Often an add-on – where contribution rates are relatively low
- ◆ Where contribution rates are high, often social security contributions reduced

Contribution Rates to Private Retirement Accounts



Contribution Rates to Social Security, OECD



Overall experience has been successful

- ◆ In developing countries, small issues have arisen:
 - Financial market depth
 - Strict regulation of funds reduces choices to workers
 - Size of market resulted in little competition
 - Administrative costs
- ◆ Would not expect these issues in the US case

Popular Despite Political Rhetoric

- ◆ Before introducing private retirement accounts, politicians endlessly debate political feasibility
- ◆ In country after country, when people have been given the choice of whether to join the new system or not, they overwhelmingly choose the new system